

Introductory Section

City of Rockville, Maryland

Comprehensive

Annual Financial Report



Prepared by:
Department of Finance

Donna J. Boxer
Director

Fiscal Year 2004
July 1, 2003 - June 30, 2004

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CITY OF ROCKVILLE, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2004

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CITY OF ROCKVILLE, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2004

MAYOR

Larry Giammo

COUNCIL MEMBERS

Robert E. Dorsey
Anne M. Robbins

John F. Hall, Jr.
Susan R. Hoffmann

ACTING CITY MANAGER

Catherine Tuck Parrish

DIRECTOR OF FINANCE

Donna J. Boxer

CITY CLERK

Claire F. Funkhouser



October 31, 2004

Honorable Mayor and Members of the City Council
City of Rockville, Maryland

State law requires that all general purpose local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report for the City of Rockville, Maryland, for the year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Rockville. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Rockville has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Rockville's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rockville's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Rockville's financial statements have been audited by McGladrey and Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rockville for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rockville's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Rockville was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rockville's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Rockville's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The City of Rockville is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Mayor and Council. The Mayor and Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the city manager



and attorney. The city manager is responsible for carrying out the policies and ordinances of the Mayor and Council, for overseeing day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Rockville provides a full range of services, including water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development and community services. Schools, libraries, social services and fire protection are provided by Montgomery County, Maryland.

The City of Rockville, Maryland, was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has an estimated population of 57,619 and a land area of 13.50 square miles. According to the 2000 census, Rockville is the fifth largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members, who are elected for two year terms.

The City Charter requires the city manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a six-year capital improvements plan is presented for the Council's review. Each department and agency prepares its own budget request for the city manager's review. The Mayor and Council schedules and publishes advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the city manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can be enacted only by the Mayor and Council through a budget amendment ordinance.

As a management policy, budgetary control is maintained in the General, Special Revenue and Enterprise funds at the character level within departments by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders, which result in overruns of balances, are not processed until sufficient appropriations are made available. In the Capital Projects Fund, similar procedures are followed, but the level of control is at the project level. For all other funds, appropriation control is at the fund level.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 52 as part of the required supplementary information section for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, these comparisons are presented on pages 57 and 58.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Rockville operates.

LOCAL ECONOMY

The City of Rockville currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a firm employment base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include computer hardware and software manufacturers, bio-tech and several financial institutions.

The city has an employed labor force of approximately 73,179. Rockville has experienced substantial residential and commercial growth in recent years and this growth is expected to continue with the redevelopment of the Town Center.



The following table lists the labor force, employed persons and average unemployment rates for Montgomery County as compared to the unemployment rates for the State of Maryland for the years 2000 through 2003, and February 2004 only. Information presented in the table below has not been seasonally adjusted.

Unemployment Statistics

<u>Year</u>	<u>Montgomery County</u>				<u>State of Maryland</u>
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Rate</u>	<u>Unemployment Rate</u>
2004 ⁽¹⁾	510,313	491,424	12,889	2.5%	4.5%
2003	505,536	492,219	13,317	2.6%	4.4%
2002	503,584	489,673	13,911	2.8%	4.0%
2001	489,166	477,701	11,465	2.3%	3.8%
2000	482,985	473,902	9,083	1.9%	3.5%

⁽¹⁾ First two months of 2004.

Source: Maryland Division of Employment Security.

Income levels in the City of Rockville are among some of the highest in the nation. Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City.

The retail sales and buying income lists median household effective buying income (EBI) and per capita retail sales for the City of Rockville and Montgomery County for the years 1998 through 2002, as reported in *Sales and Marketing Management*, "Survey of Buying Power."

Retail Sales/Buying Income

<u>Year</u>	<u>Median Household EBI</u>		<u>Per Capita Retail Sales</u> ⁽²⁾	
	<u>City of Rockville</u>	<u>Montgomery County</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2002	\$56,213	\$58,620	\$27,440	\$13,937
2001	57,943	61,797	24,424	13,186
2000	65,494	65,881	20,717	13,547
1999	58,168	61,127	19,027	13,526
1998	56,306	57,464	18,444	9,166

⁽²⁾ For the years 1999 and thereafter information regarding per capita retail sales are not directly comparable to previous years. Statistics are now based on the new North American Industry Classification System.

Source: *Sales and Marketing Management*, "Survey of Buying Power."

MAJOR INITIATIVES

- Rockville's Town Center development was approved for \$12 million in funding from Montgomery County as the County Council approved the recommendation from the County Executive. The funds will go toward infrastructure improvements that support Town Center.



- The State of Maryland approved \$1.5 million in funding for public improvements related to Town Center development.
- U. S. Environmental Protection Agency awarded a \$1.125 million grant for stormwater projects.
- The State of Maryland awarded a loan for \$4,492,783 for upgrades of the City's water plant.
- On June 1, 2004, the City of Rockville issued \$19,315,000 in General Obligation Bonds. These bonds were rated "Aa1" by Moody's Investors Service and "AA+" by Standard and Poor's. The proceeds of the bonds are to be utilized to fund the expansion and upgrade of a sewage treatment plant, the purchase and replacement of city owned vehicles, town center redevelopment costs, parking garage site preparation expenses, and improvements to various parks. Also, on June 1, 2004, the City of Rockville issued \$12,350,000 in Bond Anticipation Notes. These notes were rated "MIG1" by Moody's Investors Services and "SP-1+" by Standard and Poor's. The proceeds of the notes are to be utilized to finance or refinance the cost of acquiring certain real property.
- The U. S. Department of Justice awarded \$100,000 for upgrades in new police technology.
- The Rockville Senior Center received a \$99,347 grant from the Maryland Department of Aging for facility renovations.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the 14th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

This report could not have been prepared without the dedicated cooperation of the entire staff of the Finance Department. Special recognition is extended to Fran Jablonski, Tim Peifer, Wanda Roelkey, Jen Frank, Whitney Coleman, Nancy Zombolas and Carlton Barclay for the sense of commitment they displayed throughout the preparation process. We also would like to express our appreciation to the Mayor and Council for their interest and support in planning and carrying out the City's financial operations in a responsible, progressive fashion.

Respectfully submitted,

A handwritten signature in cursive script, reading "Catherine Tuck Parrish".

Catherine Tuck Parrish
Acting City Manager

A handwritten signature in cursive script, reading "Donna J. Boxer".

Donna J. Boxer, CPA
Director of Finance

A handwritten signature in cursive script, reading "David B. Rowland".

David B. Rowland
Controller

City of Rockville Organizational Chart

November 2004

